

California's Dairy Landscape in 2004

Consistently high milk prices was the most identifiable characteristic for the California dairy industry for 2004. The previous year's low and flat milk prices experienced a turnaround in 2004 and overall milk production in California has been on a steady increase. The following comparisons and industry data capture the dairy landscape in California for 2004.

Production of Milk and Dairy Products

- The 12-month average price paid to producers was \$14.69 per hundredweight, a 29 percent increase when compared to the same period for 2003.
- The 12-month average growth in milk production for 2004 was 2.9 percent, as compared to 1.1 percent for 2003. From January through December 2004, eight months exceeded three billion pounds in total production, with the last four months averaging a 5.1 percent increase compared to 2003 production.



- Although the commodity prices for both butter and cheese were volatile and unpredictable from pricing period to pricing period, throughout the year they responded to renewed consumer confidence, strong world prices, and at times, the lack of surplus dairy products on hand.
- Although 37 counties contributed to the state's total milk production, a handful of counties continue to be responsible for the bulk of the production. Tulare, Merced, Stanislaus, Kings, and San Bernardino counties accounted for 66 percent of the state's market milk production.

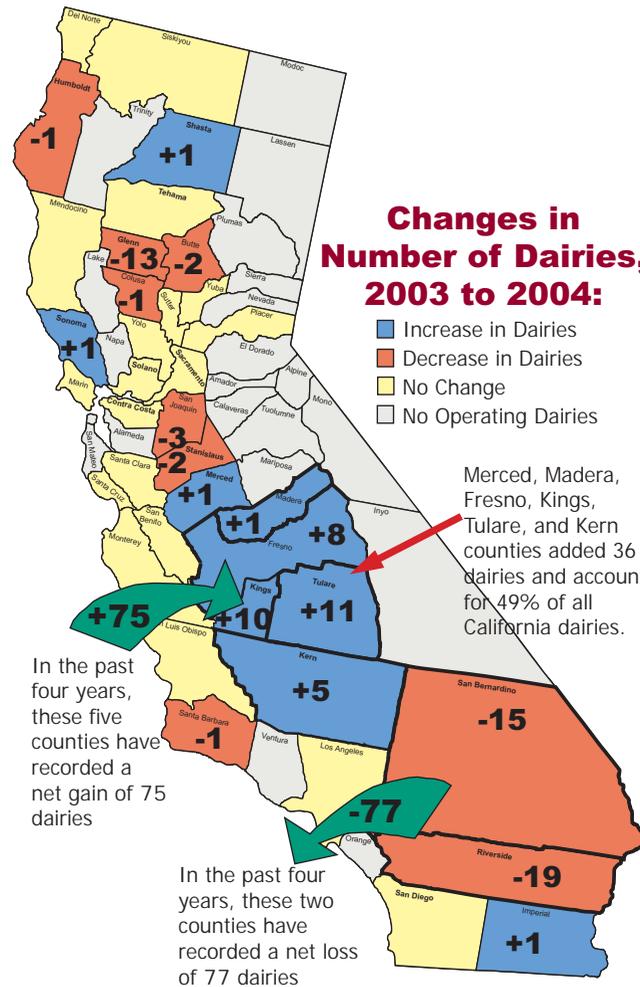
Farmer-Funded CWT Program

The farmer-funded Cooperatives Working Together (CWT) program tried to counteract the resurging milk production of 2004. In late 2004, the last wave of the CWT herd retirement program accepted bids across the U.S. from 363 dairy farms, which accounted for 50,478 dairy cows being retired that would have produced approximately 908 million pounds of milk.

- Over the last two years, CWT's efforts for the entire U.S. have accepted retirement bids from 662 farms, retiring 834,000 cows, representing 1.5 billion pounds of milk; for California, 38 farms, 21,516 cows, and 429.3 million pounds of milk.
- Overall, milk production in California seemed to ignore the CWT program efforts coupled with a few months of very wet weather in the latter part of the year, and responded to higher milk prices and higher demand for dairy products.

The Shift of California's Dairy Landscape

The shift of California's dairy landscape continued in 2004, with nine counties recording a net loss of 57 dairies, and San Bernardino and Riverside counties accounting for 34 of those dairies. The majority of the increases in dairy operations continue to be recorded in the central California valley area, particularly Fresno, Tulare, Kings, and Kern counties.



Utilization of Dairy Products

Utilization in 2004 continued to reflect recent production trends. Production of butter, nonfat powder and cheese continued to play major roles in how plants converted the increasing milk supply into dairy products.

- Class 4a (butter and powder) and Class 4b (cheese) accounted for 76 percent of all pooled milk available on a total solids basis. Class 4b (cheese) led all classes in utilization with over 46 percent of all pooled milk solids being used to produce cheese.
- The utilization of pooled milk into Class 1 (fluid milk) products continued to decrease, averaging 15.7 percent for the entire year.
- Class 1 sales (milk used for fluid purposes) decreased for the first time since 2001, showing a 1.2 percent decrease compared to 2003. Overall, sales of reduced-fat, skim, and half-and-half showed increases, while whole and lowfat milks continuing their trend of decreasing sales.

Department Hearing Results in 2004

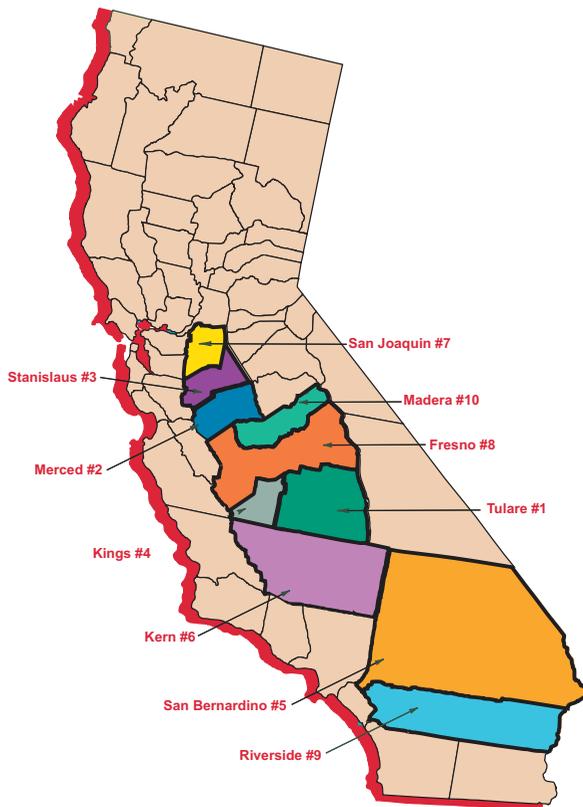
In August, 2004, the Department held a public hearing to consider proposed changes to the milk movement incentives provided for in California, namely transportation allowances and transportation credits. The purpose of the hearing was to review proposals submitted

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to address the competitiveness of milk movement in California's changing dairy landscape.

- The results of the hearing instituted the following changes: establishment of a North Bay receiving area; increases in allowance rates for the following receiving areas: Bay Area, Solano, North Bay, Southern California, and San Diego; and increased mileage brackets for the Southern California receiving area.

Top 10 Milk Producing Counties, 2004



- In late 2004, the Department received a petition and six alternative proposals addressing manufacturing cost allowances, product yields, f.o.b. California price adjusters and the inclusion of a whey pricing component in the Class 4b formulas and called a hearing to take place in early February 2005.

Facts, Highlights, Rankings

California has been the leading state in agricultural production for over 50 years and the sales of milk and cream continue to be an important agricultural commodity for California, generating \$5.2 billion in 2004.

Rankings

- California ranked first in milk production in the U.S., followed by Wisconsin, New York, Pennsylvania, and Idaho.
- California continues to lead the nation in the production of butter, nonfat dry milk, ice cream, Mozzarella cheese, and whey protein concentrate.
- California led the nation in the total number of dairy cows at 1.7 million cows and ranked 5th in milk production per cow.

Facts, Tidbits, Highlights

- California produces one out of every five glasses of milk and one out of every five pounds of cheese in the U.S.
- Approximately 19 percent of all dairy cows in the U.S. live in California, where the average dairy herd size is 825 cows.
- Approximately 47 percent of the milk produced in California is used to make cheese.
- California's total milk production was 36.4 billion pounds, 21 percent of the nation's total milk production.



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The Dairy Council of California

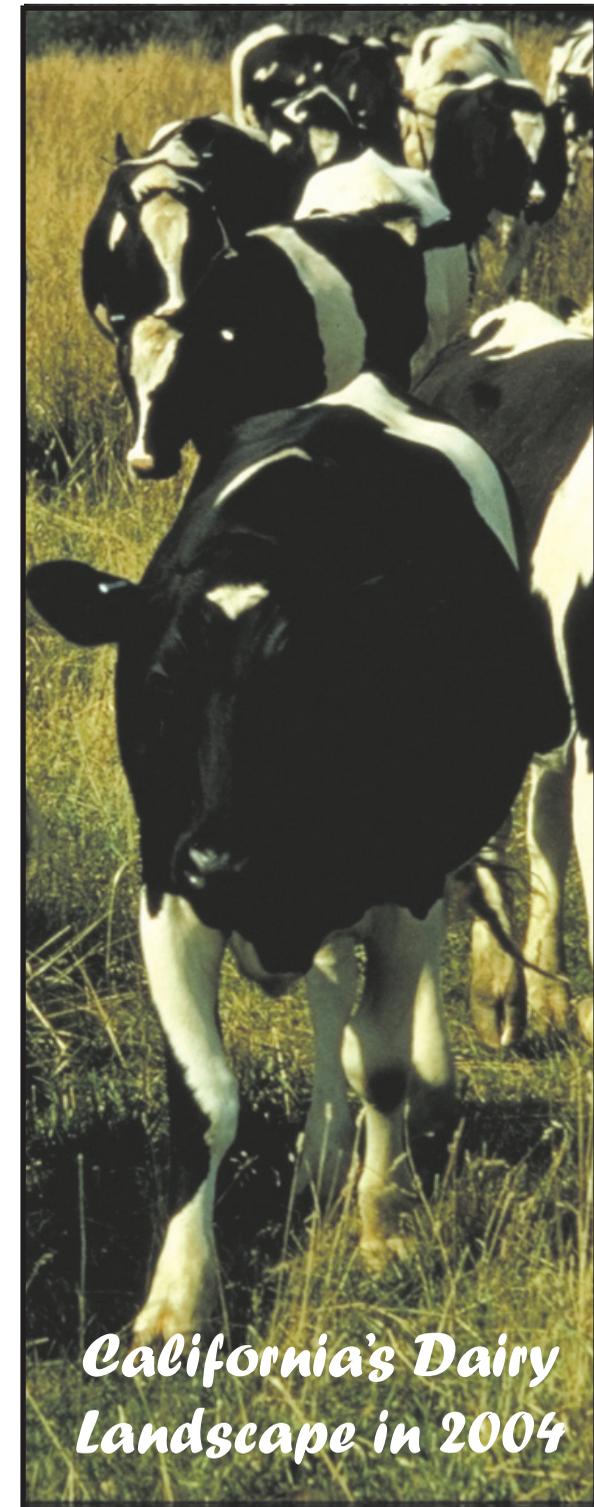
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www.dairycouncilofca.org

California Milk Advisory Board

650/871-6455
www.realcaliforniacheese.com

California Fluid Milk Processor Advisory Board

510/883-1085
www.gotmilk.com



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